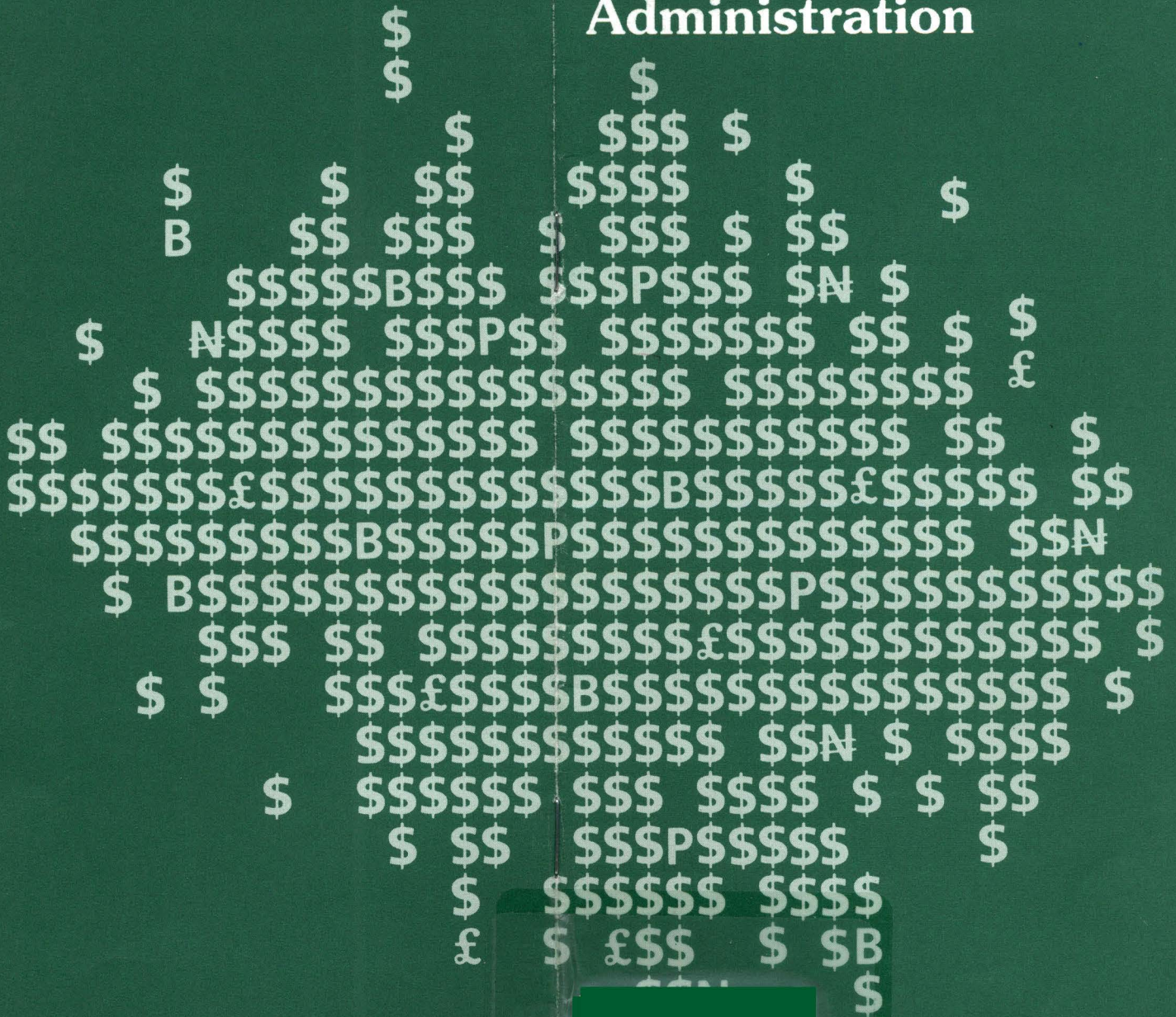


Project Finance and Administration



A Guide to IDRC's
Financial Procedures



May 1991

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PROJECT FINANCE AND ADMINISTRATION

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INTRODUCTION

IDRC hopes that this booklet will give our grant recipients a better understanding of IDRC policies and will clarify a number of recurring questions and issues. It is supplemented by another publication, "Budget Development and Reporting: A Guide for IDRC-Assisted Projects," which deals with budgeting procedures in depth.

Comments and questions arising from this booklet are most welcome and should be addressed to

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IDRC FINANCIAL PHILOSOPHY

IDRC believes that the primary function of a research organization is to conduct research and that the role of the administrative infrastructure is to support that research effort.

Too often, financial administration is regarded, and regards itself, as a policing instrument whose objective is to monitor and control research activities by means of financial controls and restrictive regulations.

IDRC prefers to encourage a "team approach," in which the administrative infrastructure serves as a powerful management tool to assist research professionals working in cooperation with their administrative counterparts rather than against them. In this spirit, pertinent financial information is passed to program officers who work closely with IDRC treasury staff, and serves as a useful means of monitoring a project's progress.

IDRC staff need detailed financial reports from projects on a regular basis. The information permits them to respond rapidly and sympathetically when an amendment to the budget is requested and to monitor the progress of the project.

In line with this philosophy, one of the key words in IDRC's approach to project-budget administration is **flexibility**. The difficulties of maintaining an accurate budget for a long-term project, which by its nature may be subject to unexpected change, are fully understood. Added to this, there are problems of foreign exchange, rising costs, delays in obtaining equipment and supplies, shortages of personnel, etc. The Centre is aware of these and many other problems and allows for them as much as possible in its administrative procedures.

Also, institutions differ in their accounting systems and reporting methods, as well as general

administrative practices. **As a donor agency, IDRC expects certain minimum standards but does not want to see the research projects suffer as a result of too stringent regulations.** The following guidelines should be interpreted in light of this philosophy.

PROJECT BUDGET ADMINISTRATION

General Components of Project Budgets

The components of the budget of IDRC-assisted projects vary, depending on the type and complexity of the research being undertaken. Costs may be covered for staff hired specifically for the project; however, IDRC does not generally permit the provision of gratuities for existing staff. IDRC may provide funds for staff replacement and operating costs such as those for hiring casual labour or purchasing of small tools and implements, materials to build prototypes, fertilizers and field supplies, laboratory chemicals and materials, and other items needed to carry out the research. Capital equipment may be required as well.

The project may call for researchers to travel either locally or abroad to carry out the research or to exchange research-related information. Information services, some of which are available through the IDRC Library, may also be required during the project. Examples of these services are purchases of books, computerized searches, and periodical subscriptions. Depending on the complexity of the issues involved, consultants may be hired to advise the researchers on specific problems that are anticipated.

Short-term training — preferably conducted within the country or region — will be considered for project staff who need it to carry out IDRC-funded research. Workshops in the country or region might be anticipated to provide a means of sharing research results, to help formulate government policies, to develop further research programs, or to extend the research results to the intended beneficiaries. Funds might also be allocated for the production of the final project report.

In addition, other types of research costs may be identified and considered for inclusion in the project budget. However, as a matter of policy, IDRC does **not** fund buildings and other similar permanent structures.

Basic Structure of Project Budgets

The budget of an IDRC-assisted project consists of two parts: the Recipient-Administered Portion (RAP) and the Centre-Administered Portion (CAP). IDRC favours the administration of the grant by the recipient, reducing, as much as possible, the portion administered by IDRC.

RAP refers to that part of the budget that will be wholly administered by the recipient. It includes such items as wages and salaries, research expenses, and capital equipment. For funds released by IDRC on the basis of the RAP, the recipient will have full authority to hire full-time or part-time project staff and purchase the necessary field supplies and other materials and equipment specified in the budget.

CAP covers those expenditures that have been agreed upon for the project but, because of their nature, are administered by IDRC. These funds are, in general, spent by IDRC after consultation with the recipient. Examples of CAP expenses are training, consultancies, and the purchase of capital equipment that is not available locally. Most CAP expenses are subject to the recipient's representatives providing complete details related to the budgeted activity or purchase. For instance, under training, the recipient would need to report names of the trainees, the type of training programs required, and the names of suitable training institutions. If IDRC's program officer responsible for the project agrees with the request, then IDRC would deal directly with the training institution and make the required payments.

Nature of Local Contributions

The Memorandum of Grant Conditions (MGC) is the legal contract between IDRC and the recipient; it outlines the administrative responsibilities as well as the grant conditions. In addition to IDRC's contributions, the MGC includes a section outlining

the budget to be funded from local contributions, which represents the recipient's own commitment to the project's funding. The figures may represent either an actual allocation of funds (cash contribution) by the recipient or a monetary equivalent of staff and material input (in-kind contribution). This distinction should be clearly indicated in the budget.

PROJECT ACCOUNTING AND ADMINISTRATIVE AND INTERNAL CONTROL

Accountant

Ideally, the person responsible for maintaining the project's accounting records should be a qualified accountant, preferably working under the supervision of the recipient's finance officer.

Accounting System

A project's accounting system should be effective and provide a convenient means for extracting information for financial reporting. The recipient must account separately the funds received and the funds expended for each project. Therefore, the books of accounts of the institution must clearly segregate the information on each project. Different institutions have different systems. In one university, a pool of accountants in the accounting department maintains books of accounts for all research projects funded by IDRC and other donors. In another university, funds are received by the university's central system and are released to the particular faculty or department, which then undertakes the research and maintains the project's accounts.

Accounting Records

The basic record kept by most recipients is a project ledger, which accounts for expenditures incurred on a day-to-day basis using the project's budget headings. Some recipients use a budgetary control record, which compares budgeted and actual expenses over regular periods, say, monthly. A more detailed variation of the budgetary control record is the fund balances record, which shows the

budget balance of each item after each expenditure. A cash book has also been found to be useful by some recipients.

Treatment of Common Expenses in a Multidonor Project

For projects where IDRC is one of multiple donors, the accounting for common expenses (i.e., the same type of expenses shared by two or more donors) may be done in one of several ways. For instance, the expenses for specific items can be prorated on the basis of each donor agency's approved budget for the items (e.g., if for a \$30,000 research expense, donor A is to contribute \$20,000 and IDRC \$10,000, the sharing would be 2 to 1); or expenses can be divided on the basis of total project costs. This approach simplifies accounting because the total costs are simply split in proportion to the level of funding.

In both cases, however, expenses should be accounted on a day-to-day basis under the respective budget headings without being split among the donors. The splitting exercise should only be done when the financial reports are being prepared. This facilitates the bookkeeping routine.

Ownership of Project Equipment

Equipment purchased from funds provided by IDRC becomes the property of the recipient institution. The institute is, thus, responsible for its proper upkeep, maintenance, and use, although, during the life of the project, the equipment is expected to be dedicated solely to the project. When the project ends, all costs associated with the equipment must be borne by the recipient.

Administrative and Financial Control

As a donor agency, IDRC insists that recipients have administrative and financial controls, but these should not be so stringent as to hamper the project. Routine administrative procedures (on such aspects as hiring personnel and purchasing equipment and supplies) as well as internal checks (such as documentation and approval for payments and authorization for cheques) for the recipients' own operations should prove suitable for IDRC-assisted projects. In the event of difficulties, IDRC may

request that recipients review particular administrative or financial operations for possible improvement.

PROJECT REPORTS

Nature and Submission of Project Reports

The frequency of reporting is specified in the MGC, and normally consists of two reports submitted annually to IDRC; one on the technical progress and one on the finances of the project. These two reports are normally submitted at the same time, but after consultation with IDRC staff, a recipient may submit them separately. For example, a recipient could seek separate submission dates if the cropping year ends on 31 December and the financial year on 31 March. This publication provides details only on the financial report, which must be submitted on or before the date stipulated in the MGC unless a new date has been negotiated with IDRC. **Recipients experiencing cash-flow problems before the scheduled payment date should submit their financial report as early as possible.**

Uses

The importance of financial reports cannot be overemphasized. Project leaders must be constantly aware of the financial status of their projects. Excess funds mean that activities have been either over-budgeted or not performed on schedule. Fund deficits mean either that expenditures have been underestimated (perhaps because of economic conditions outside the institution) or that unplanned activities have been undertaken during the course of the project.

When discrepancies appear in the budget, project leaders often need to review other activities in a project because a change in one area of activity usually affects the whole project. Project leaders, therefore, can use financial information as an indicator of the overall progress of a project and as a mechanism to alert them to the need to take corrective measures.

Contents

The financial reports should provide sufficient details for both the recipient and IDRC to be able to appraise the project's financial situation. It should

- Be presented in the same format (i.e., using the same budget items) as the budget portion of the MGC (see Appendix: Sample Financial Report).
- Clearly state the period covered (e.g., from 1 January to 31 December 19__); if the opening and closing dates covered by the report differ from the dates described in the MGC, an explanation should be provided.
- Report expenditures on a cash basis. Accrued expenses that have been incurred but not yet paid, such as invoices for goods sent by suppliers and services rendered to the project, should be included with the estimates for the next period.
- Report expenditures in the recipient's local currency, indicating the name of the currency. For institutions that keep and pay their accounts in United States dollars (USD), the US dollar is considered the local currency.
- Include a summary of funds received from IDRC, indicating both the amounts in Canadian dollars (CAD) and the equivalent in local currency. The summary will either be a list of payments received specifying the date each installment was received or a list summarizing the transfers from a foreign currency account (i.e., USD) to the local currency account by month or quarter. The institution must be able to provide details of each transfer if required by IDRC. This information confirms that the correct remittances have been received by the recipient and serves as IDRC's basis for calculating the weighted average exchange rate for converting expenditures in local currency into Canadian dollars.
- Include estimated expenditures for the next payment period.
- Contain a list of the equipment purchased.
- Include an analysis of variations between budgeted and actual expenses as well as explanatory

notes for major variations (more than 10% and 1000 CAD) in any given time.

- Include other project income, if applicable.
- Provide an analysis of the cash position of the project at closing date.
- **Be signed by both the project leader and the recipient's finance officer.**

Estimated Expenses for the Next Payment Period

The estimates of expenses (including accrued expenses) given in each financial report provide recipients with the flexibility to modify the schedules of activities. However, the total actual and future payments should be within the limit of the approved grant. Submission of estimated expenditures also allows recipients to seek approval for any major changes they foresee as needed in the budget. **Therefore, it is important that the estimates be submitted along with the report of actual expenditures.**

Processing a Recipient's Financial Report

Within IDRC, the report is analyzed by staff in the Office of the Treasurer, who

- Calculate a weighted average rate of exchange and then convert local currency into Canadian dollars;
- Compare actual expenses with the budget — an analysis of variance in both the local currency and Canadian dollars;
- Review estimated expenses to see how they will affect the financial outlook of the next payment period;
- Review the project's file, with particular attention on how the project is faring in terms of the expected completion date;
- Review the history and schedule of payments; and
- Analyze the project's cash position.

The results of the analysis, which may include observations and queries about the project's financial results, as well as payment or nonpayment

action, are then conveyed to the IDRC program division concerned. The program staff discuss the results with the representative from the Office of the Treasurer, and a letter is sent to the recipient.

The speed with which funds can be released to a recipient is determined largely by the submission and the presentation of financial reports. In many cases, questions need to be asked and answered (an exchange that can take considerable time) before IDRC can proceed with a proper evaluation of the project's financial standing and release of payments. **Punctual and complete submissions are a must.**

PROJECT PAYMENTS

Basic Scheme

The MGC includes a schedule of reports, which serves as a guide to the timing of the release of funds to a project. Payments are normally made at 6-month intervals, and there are basically two types: automatic payments and payments requiring submission of reports. The initial and all even-numbered payments are normally automatic, whereas the odd-numbered ones (e.g., third, fifth, etc.) usually require prior submission of reports on the financial and technical progress of the project. **Payment is made only after analysis of the technical and financial reports by IDRC and will depend on the cash position of the project, the estimated future expenses, and the recipient's providing satisfactory answers to any queries raised by the analysis.**

Mode

The common methods IDRC uses to release funds are telegraphic transfers, bank drafts, and cheques. However, the use of the best mode of remittance for a particular project and country is important to avoid unnecessary delay in the receipt of funds by the project. Recipients should find out what is the best method for them by discussing the issue with their bankers. They should then inform IDRC of their banking arrangements at the time the MGC is signed.

Project Bank Account

Grant payments from IDRC can only be made to **institutional accounts**. Any interest income must be recorded as income to the project.

Unused Funds

As stated in the MGC, all unused funds are to be returned to the Centre on completion of the project.

Reporting the Centre-Administered Portion

Some recipients require information on actual payments made by IDRC from the CAP to satisfy their government's requirements for reports on foreign assistance. Others need the information for project-planning purposes (e.g., are funds available for further international travel or consultancies?). In any case, the information is available through the program officer, on request, at any time during the project's life.

Foreign Exchange Fluctuations

Recipients suffering a loss caused by a depreciation in the value of the Canadian dollar can request that the Centre consider making up this loss if project funds are insufficient to cover the deficit. On the other hand, if the value of the Canadian dollar goes up, IDRC will expect savings on the local currency for expenditures incurred as planned. These possibilities highlight the importance of preparing the budget, reporting the receipt of funds, and reporting expenditures in local currency. With this information, both the recipient and IDRC are able to determine the effect of exchange differences on the project budget.

GENERAL PROJECT POLICIES

Delays in Commencement

From IDRC's viewpoint, the project starts either on the date the MGC is signed or on the date specified by the MGC. However, projects are sometimes delayed because of difficulties in hiring personnel, preparing facilities, or purchasing essential equipment. In such cases, recipients should notify

IDRC as soon as possible so that consideration can be given to a change in the completion date.

Expenses before the Commitment Date

As a general policy, IDRC does not provide funds for expenses incurred before commitment, i.e., signature date of MGC by recipient. However, in rare cases, these expenses will be considered, but there is no guarantee they will be approved. IDRC approval must be obtained in advance.

Budget Revisions

Project expenditures should be kept within the approved budget, although unforeseen circumstances sometimes require changes to ensure that the project's objectives are attained. There are normally three types of budgetary changes:

- **Horizontal transfers** when budgets need to be changed to match revisions in the timing of activities. Such transfers can be made by the recipients without prior formal IDRC approval if they do not involve an extension of the life of the project. When expenditures on a budgetary item (e.g., salaries) for a particular period differ from the budget, the budget for the remaining time must be decreased or increased correspondingly. As long as the total budget for an item is not exceeded, the change is acceptable to IDRC from a purely financial viewpoint. **Nevertheless, recipients should provide an explanation in the next financial report to show that overall project objectives remain unaltered.** As an illustration, a project's budget could look like this:

	000s local currency		
	Year 1	Year 2	Total
Salaries			
Research assistant	200	200	400
Research expenses			
Casual labour	100	80	180
Field supplies	80	70	150
	<u>180</u>	<u>150</u>	<u>330</u>
Total	380	350	730

If, during year 1, the recipient advanced certain activities originally scheduled for year 2, the expenditures for year 1 could be increased: research assistant, 250; casual labour, 130; and field supplies, 90. In year 2, however, the individual budget items would have to be reduced (research assistant, 150; casual labour, 50; and field supplies, 60) so that the total budgets are maintained.

- **Vertical transfers** when an expenditure **exceeds** the budget because of inflation, underestimates, program changes, etc. If the transfer exceeds the original budget by 10% and 1 000 CAD or more, **the recipient must present justification to IDRC and seek prior approval**. IDRC considers possible sources of transfers, perhaps savings from other line items within the Recipient-Administered Portion of the Budget or shifts from some unspent items in the Centre-Administered Portion. In the sample budget, if the recipient felt that changes in project activities warranted an increase in the total budget for the research assistant to, say, 500 and a decrease in casual labour to 80, prior IDRC approval would be required and detailed justification for the proposed changes would have to be given.
- **New line items**. Requests for new line items during the project's life need prior justification and IDRC approval.

When budgetary changes for vertical transfers or new line items exceed the total grant, the recipient and IDRC must review the estimates for other expenses in an attempt to effect savings. As a last resort, a supplementary grant may be considered after exhaustive discussions with IDRC representatives. This involves full justification of the amount involved. At times, the recipient must bear the burden of excess expenditures.

Budget overruns can normally be avoided by careful planning at project conception. For this reason, IDRC recommends an all-out effort toward adequate project planning and estimating. If errors are committed, either in planning or implementa-

tion, the reasons must be determined so that the recipient and IDRC can together seek a solution.

Disposition of Project Income

Certain projects generate income from interest paid on bank deposits or from the sale of livestock, grain, other produce, processed food items, or publications. All income must be properly accounted for, reported to IDRC, and included in the analysis of the cash portion of the project at the reporting date.

APPENDIX: SAMPLE FINANCIAL REPORT

Project Title:

Centre File:

Financial Report for the period (1) from _____ to _____

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Items (2)	Budget (3)	Cash expenses (4)	Variance (5)	Explanation of Variance (6)
Salaries				
Research assistants (2)	33,600	33,400	200	
Secretary/administrative assistant	<u>9,600</u>	<u>9,600</u>	<u>—</u>	
	43,200	43,000	200	
Research expenses				
Casual labour	12,800	12,000	800	
Printing and Stationery	8,900	7,000	1,900	
Field supplies	6,000	5,500	500	
Local travel	12,000	11,000	1,000	
Small tools and implements	<u>4,000</u>	<u>3,900</u>	<u>100</u>	
	43,700	39,400	4,300	
Conferences	<u>0</u>	<u>0</u>	<u>0</u>	
Total	<u>86,900</u>	<u>82,400</u>	<u>4,500</u>	

Submitted by:

Project Leader

Institution's Finance Officer

Notes

(1) Covers the immediate past year (twelve-month period).

(2) Use exact budget headings as detailed (including specific budget items) in the Memorandum of Grant Conditions. However, new budget line items should be shown separately.

(3) Use budget figures per the Memorandum of Grant Conditions.

(4) Figures in local currency.

(5) Difference between budget (3) and actual (4).

(6) Reasons for overruns/underruns/new items. Use additional sheet if necessary.

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Summary of IDRC remittances

Date received	Amount	
	Canadian \$	Local currency equivalent
January 4, 19__	6,700	44,220
June 1, 19__	6,700	44,890

Project Title:

Centre File:

Statement of estimated expenses for the Period (1) from to

Items (2)	Budget (3)	Estimated Expenses (4)	Estimated Variance (5)	Explanation of Estimated Variance (6)
Salaries				
Research assistants (2)	36,960	36,700	260	
Secretary/Administrative assistant	<u>10,560</u>	<u>10,560</u>	<u>—</u>	
	47,520	47,260	260	
Research expenses				
Casual labour	8,000	7,500	500	
Printing and stationery	500	2,000	(1,500)	
Field supplies	4,000	4,000	—	
Local travel	10,000	11,000	(1,000)	
Small tools and implements	<u>0</u>	<u>—</u>	<u>—</u>	
	22,500	24,500	(2,000)	
Conferences	<u>20,000</u>	<u>20,000</u>	<u>—</u>	
Total	<u>90,020</u>	<u>91,760</u>	<u>(1,740)</u>	

Submitted by:

Project Leader

Institution's Finance Officer

Notes

(1) Covers the next year (twelve-month period) or for remaining project duration if less than one year.

(2) Use exact budget headings as detailed (including specific budget items) in the Memorandum of Grant Conditions.

(3) Use budget figures per the Memorandum of Grant Conditions. If the original budget had been previously revised after IDRC's approval, the budget figures here should refer to the revised estimates.

(4) Estimates based on latest project plans and current cost expectations in local currency.

(5) Difference between original budget (3) and estimated expenses (4).

(6) Reasons for overruns/underruns. Use additional sheet if necessary.